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China in Hong Kong: Building for 1997

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An Intelligence Assessment

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*EA 86-10018
May 1986*

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China in Hong Kong: Building for 1997

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An Intelligence Assessment

This paper was prepared by [] Office
of East Asian Analysis, with [] contributions
by the China Branch, Office of Central Reference.

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**China in Hong Kong:
Building for 1997**

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Key Judgments*Information available
as of 14 April 1986
was used in this report.*

We believe the Chinese are steadily expanding their influence in Hong Kong and that their authority will grow as they begin to assert themselves over the next few years. We judge that the Chinese will continue to be generally successful over the near term in reassuring local and international business firms that their interests will be protected.

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Beijing has shown itself more adept so far at managing the transition than had expected and is becoming more knowledgeable about the territory.

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As a result, US companies—which have \$4-5 billion invested there—will continue to see Hong Kong as an attractive place to do business. In fact, Hong Kong will probably become increasingly important to US firms over the next few years, both as a market—especially for US agricultural products—and as a center for facilitating US trade and investment in China. Bilateral trade in 1985 reached \$12 billion. Hong Kong, moreover, probably will remain available as a port of call for the US Navy at least until 1997, when the British formally relinquish control.

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In our view, Hong Kong's growing importance to China's modernization program—both as a trading partner and as a source of investment capital—offers local interest groups their greatest leverage over the longer run for influencing Chinese policy toward the territory. China's ability to sustain the confidence of the local professional and business classes—essential to Hong Kong's continued prosperity—will become increasingly critical by the early to middle 1990s. Many Hong Kong businessmen, who make their investment decisions on a five-year basis, will then be reassessing whether to reinvest or to transfer their assets elsewhere.

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Several factors, in our judgment, will influence business confidence as Hong Kong moves toward the transition. Most important will be whether Beijing remains eager to attract foreign capital for its modernization program. If it does, then the Chinese will probably be highly sensitive to international business concerns over the stability of Hong Kong. This sensitivity probably will be reflected in Beijing's handling of several matters that will directly affect Hong Kong over the next few years. Key benchmarks will include:

- 1987—when London has promised to consult Beijing before introducing any further democratic reforms, giving the Chinese potential veto power.

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- July 1988—the Sino-British Joint Liaison Group, established to deal with a range of issues left unsettled by the Hong Kong accord, will move its base of operations to Hong Kong, giving its Chinese members an opportunity to interfere more directly in the running of the territory if Beijing so chooses.
- 1990—target date for completion of the Basic Law for Hong Kong. Beijing could press the British to implement aspects of the Basic Law at that point.

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China in Hong Kong: Building for 1997

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Cooperation, Lingering Suspicions

The British and Chinese have worked reasonably well together in implementing the Hong Kong accord, which they signed in December 1984. They have established a joint Land Commission to regulate and disburse revenue from leasing arrangements. The Sino-British Joint Liaison Group—established as part of the 1984 Joint Declaration to exchange information and negotiate issues left ambiguous by the accord—recently agreed that Hong Kong could gain independent status in the General Agreement of Tariffs and Trade (GATT) and is working out a basis for Hong Kong to retain its separate membership in other international organizations such as the Asian Development Bank. The British have appointed the Bank of China in Hong Kong as one of the three institutional representatives on the semiofficial banking advisory committee—hoping to “educate” China more on the Hong Kong economy.

Determined to protect and expand their influence in Hong Kong, however, the Chinese reacted very sharply to British efforts last year to promote democratic reforms in the territory.¹ Beijing made it abundantly clear that it would not be bound by such reforms. Hong Kong New China News Agency (NCNA) Deputy Director Li Chuwen, for example, told a US Consulate official in March 1985 that China “would not consider itself bound by extensive modification of Hong Kong’s political system between now and 1997.” Finally, in November 1985, NCNA Director Xu Jiatur, Beijing’s chief representative in Hong

¹ In September 1985 the British introduced an indirect election to the Legislative Council (Legco), a 56-member body responsible for enacting ordinances that must receive the governor’s assent before becoming law. Half of the 24 elected seats represent electoral colleges based on geographic divisions, and the other half represent constituencies such as labor, education, law, commerce, and industry. The rest of the Council consists of 10 ex officio members, who are the colony’s senior cabinet, and 22 others appointed by the governor. British authorities are considering introducing a direct election, changing the role of the governor, and expanding Legco’s powers, which the Chinese fear would turn Legco into a troublesome power base for local interests.

Kong, publicly accused the British of “deviating” from the 1984 Joint Declaration by pursuing these reforms without consulting the Chinese.

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We believe Xu’s outburst reflects lingering Chinese suspicions of British intentions. Judging from their reactions throughout the negotiations, the Chinese appear to believe that the reforms are an attempt to perpetuate British influence after 1997; to preempt the role of the Basic Law Drafting Committee (BLDC), set up to spell out the basis of the promised autonomy for Hong Kong; and ultimately to limit Beijing’s ability to exercise control over Hong Kong.

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Although the Thatcher government continues to favor democratic reform in Hong Kong to protect the autonomy promised by Beijing, Hong Kong Government political adviser John Boyd recently acknowledged that the British have been discouraged by local apathy and strong Chinese objections. In our opinion, the British also realize they have little leverage, and they do not want to antagonize Beijing. Not only would such strains adversely affect stability in Hong Kong, but they also would affect Britain’s growing economic relations with China.

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As a result, we believe the British are resigned to a gradual erosion of their authority. In a January press conference in Beijing, Foreign Office Minister Timothy Renton acknowledged that London plans to push the reforms more slowly and to consult more with Beijing—thus giving Beijing a potential veto over further reforms. Only if the Chinese directly challenged British authority in Hong Kong—an event we believe highly unlikely—would we expect London to make a strong diplomatic protest. Such an action would be taken to reassure Parliament and to remind both Beijing and local residents that Britain retains responsibility for government until 1997.

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Key Agreements of the 1984 Joint Declaration

The policies set out in the Joint Declaration and in the annexes will be included in a Basic Law that will be maintained for 50 years after 1 July 1997. Under the agreement:

- *Hong Kong will enjoy a high degree of autonomy as a Special Administrative Region (SAR) of the People's Republic of China, except in foreign and defense affairs, which are the responsibilities of the Central People's Government. Socialist policies applied in the mainland will not be applied to the SAR.*
- *The people of Hong Kong will continue to enjoy their existing rights and freedoms under Hong Kong law. The international covenant on civil and political rights and the international covenant on economic, social, and cultural rights will continue to be applied to Hong Kong. Private property, ownership of enterprises, legitimate right of inheritance, and foreign investment will be protected by law.*
- *The legislature of the SAR will make laws for Hong Kong. The legislature will be elected (how they will be elected is not specified), and the executive will be accountable to the legislature and to the courts.*
- *The government of the SAR will be composed of local inhabitants. Beijing will appoint the chief executive on the basis of an election or after consultations with local authorities. Beijing will also appoint principal officials on the recommendation of the chief executive of the SAR.*
- *Hong Kong's legal and judicial systems, including the common law, will be maintained. A court of final appeal will be established. The maintenance of public order will be the responsibility of the government of the SAR.*
- *The SAR will be able to negotiate agreements and participate in international organizations in appropriate fields. The SAR will have autonomy in economic, financial, and monetary fields. There will be no exchange control, and the Hong Kong dollar will continue to be freely convertible. Investors will be able to deposit or withdraw their capital freely. The SAR will retain the status of a free port and a separate customs territory.*
- *The SAR will have independent finances. The Central People's Government will not levy taxes on the SAR.*
- *Existing land rights will be recognized. The Hong Kong Government will be able to grant new leases extending until the year 2047.*
- *The right of free entry into and exit from Hong Kong will be guaranteed. The agreement sets out the criteria for the right of abode in Hong Kong and the issuance and use of passports and other travel documents.*



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Figure 1. During the negotiations between the United Kingdom and China on the future of the territory, both sides claimed to "represent" the "people of Hong Kong." In a July 1983 press conference, Governor Youde stated, "I am the governor of Hong Kong . . . Indeed, I represent the people of Hong Kong." The Chinese, in turn, argued that "Mr. Youde . . . take(s) part in the talks as a member of the British Government delegation. Therefore he can only represent the British Government." The Chinese viewed the Hong Kong people as their compatriots—part of the same family, whose interests were a domestic issue and of no concern to Britain. (From the 21 July 1983 Far Eastern Economic Review)

China's Expanding Influence

While keeping a close eye on British actions, Beijing is sending in more cadres to penetrate the Hong Kong Government (especially the Royal Hong Kong Police and Immigration Department), evaluate Hong Kong personalities, companies, and organizations dealing with China, carry out legitimate business activities, and expand "united front"² work.

² United front work is the winning over, or at least neutralizing, of all non-Communists to enable the Communist party to devote its energies to consolidating its position and eventually dominating all sectors of government and community.



Figure 2. In Hong Kong's first indirect election to the Legislative Council held last September, fewer than 0.5 percent of the territory's 5.5 million people elected 42 percent of the reformed Council. Beijing raised objections to the British-initiated democratic reforms despite their limitations. (From the 10 October 1985 Far Eastern Economic Review)

To manage this increasing number of cadres, in 1985 Beijing reorganized the NCNA, its principal unofficial representative in Hong Kong, along the lines of government departments, giving it the appearance of a shadow government and an alternative to British authorities. Under the leadership of Xu Jiatusun and four vice directors, NCNA Hong Kong now consists of the departments of propaganda, foreign affairs, administration, economic affairs, research, culture and education, personnel, art and sports, coordination, and social affairs, as well as the original news agency. NCNA Hong Kong now has some 3,000 cadres, including a significant number of senior political officials.

NCNA has already begun to press the Hong Kong Government to decrease the activities of the Special Branch of the Hong Kong police,

Judging by the addition in the past two years of another 60 staff members (bringing the total to 1,100

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The New China News Agency in Hong Kong

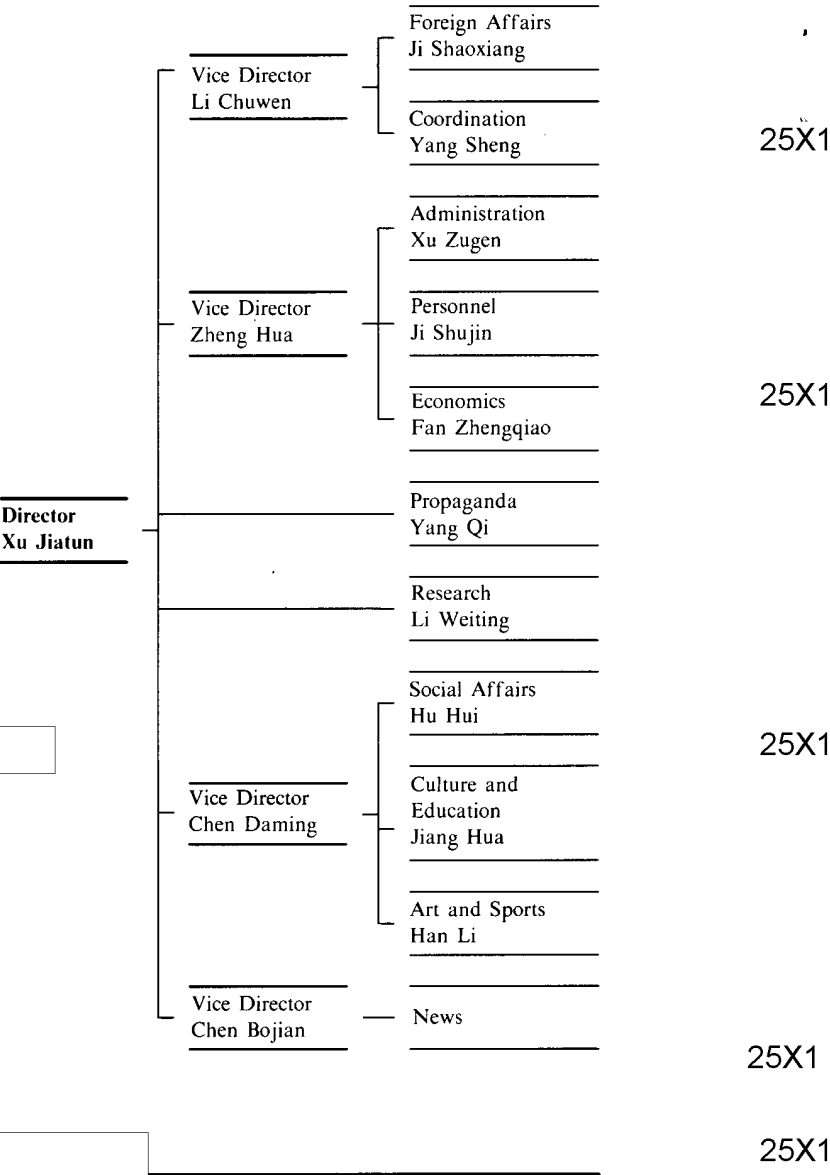
The New China News Agency (NCNA) has a history of conducting surrogate political operations abroad for China as well as those normally associated with a news agency. Some of these have been of a diplomatic nature; in the case of Hong Kong, NCNA has served as Beijing's semiofficial representative there since the 1950s.

From time to time, Beijing has sought permission from the Hong Kong Government to establish an official representative's office in the territory, but the British have consistently rejected such requests because of concern that official Beijing representation could be destabilizing and would not be in the best interest of Hong Kong.

Consequently, routine matters between Hong Kong and China have been handled mostly through special channels. For example, postal matters have been handled by the Hong Kong Post Office with Guangzhou postal authorities, and questions relating to water supply have been negotiated by the Public Works Department with Guangdong authorities. But the NCNA bureau handles more delicate diplomatic matters and thus serves as a channel for the Hong Kong Government to deal indirectly with Beijing.

More recently, the importance of the bureau has been underscored, first, by the appointment as bureau director in 1983 of Xu Jiatun, at the time a CCP Central Committee member and former provincial party secretary in Fujian and Jiangsu, and, second, by the election in September 1985 of two staff members to alternate membership of the CCP Central Committee following their assignment to Hong Kong.

**Figure 3
Hong Kong Branch of Xinhua
(New China News Agency)**



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officers) and the upgrading of the top position in the Special Branch in March 1986, we believe the British are strongly resisting such pressures. [redacted]

[redacted] the NCNA also is trying to woo and co-opt influential individuals in the territory with hints of positions in a post-1997 Hong Kong Government and of lucrative trade deals. Senior NCNA officials handpicked 23 Hong Kong representatives for the 59-member BLDC,³ who Beijing undoubtedly hopes will cooperate closely with the Chinese in putting together the Basic Law. Hong Kong shipping magnate Sir Yue-kong Pao, who serves as a vice chairman on the BLDC, has already proved very cooperative by putting forward as his own an NCNA-drafted proposal for the composition of the Basic Law Consultative Committee (BLCC). [redacted]

[redacted] Pao probably expects preferential treatment in carrying out economic ventures in China in exchange for his cooperation. [redacted]

The Chinese also are increasingly using the leftist press (*Ta Kung Pao*, *Wen Wei Po*, *New Evening Post*, *Tin Tin Yat Po*, *Ching Pao* [*The Mirror*]) to shape public opinion, while trying to intimidate and co-opt the independent media in Hong Kong. During December 1985 the pro-Beijing monthly magazine, *The Mirror*, for example, published a fairly detailed "blueprint" of the future political system in Hong Kong, which we judge was intended to influence the debate in the territory over political reforms. In

³ The 1984 Joint Declaration states that the National People's Congress shall enact and promulgate a Basic Law, but it does not specify how the Congress should approach this task. In turn, the Chinese National People's Congress appointed both mainland and Hong Kong individuals to work on the BLDC, which has the job of drafting the constitution under which the Hong Kong Special Administrative Region (SAR) will be governed after the 1997 Chinese takeover. In addition, Beijing has established a Basic Law Consultative Committee (BLCC), an advisory group charged with collecting public opinion in Hong Kong on the Basic Law. It is made up entirely of local people. The BLCC will present its findings to the BLDC after working in subcommittees of 20 to 30 people. The subcommittees will focus on issues such as the rights and obligations of Hong Kong SAR citizens, external affairs, finances and economy, and the structure of the Basic Law. These efforts contain little real substance, however. [redacted]

[redacted] the Hong Kong members of the BLDC were included to make it appear that the committee was representative of the Hong Kong people, but Beijing will not allow the Hong Kong members to have a significant role. [redacted]

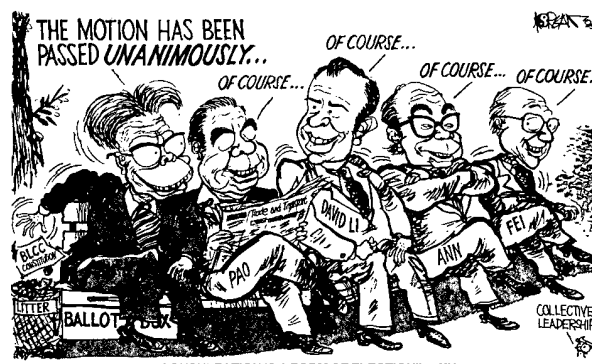


Figure 4. Last December, the BLCC contravened its own constitution in selecting its seven-member executive committee. According to the constitution, the seven office bearers "shall be elected among members of the standing committee." However, no election in the Western sense occurred. BLDC vice chairman Sir Yue-kong Pao and three other BLDC vice chairmen, including Xu Jiatun, proposed seven names to fill the posts. Because no objections were raised, the seven were installed immediately—a Beijing-style "election through consultation." The standing committee went through the motions of a "proper" election after the incident raised an uproar in the press and the Legislative Council. (From the 19 December 1985 *Far Eastern Economic Review*)

January, *The Mirror* severely criticized British attempts to leave representative governments before decolonization in India, Burma, and Sri Lanka—a transparent attack on current British reforms. [redacted]

At the same time, Ji Pengfei, the Director of the State Council's Hong Kong and Macau Office, has admonished the Hong Kong press to "introduce things as they really are" and Xu Jiatun has warned that "news must be based on facts," leaving Hong Kong journalists skittish about portraying China or its policies in too negative a fashion. During his January visit, Lu Ping, Deputy Secretary General of the BLDC and China's leading Hong Kong expert, also reminded journalists and news executives that press freedom must not infringe upon China's sovereignty over Hong Kong. One magazine publisher recently told US officials, moreover, that the Hong Kong NCNA office

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China's Blueprint for Hong Kong's Future Government

An article in The Mirror proposes a strong executive government, dominated by the business class and retaining many of the "advisory" features of Hong Kong's present system. The proposal appears designed to cater to Hong Kong's entrepreneurial and professional elite and to reassure them about Beijing's intentions for the colony. The blueprint, for example, calls for the creation of a supreme, 100-member executive advisory assembly composed "mainly of capitalists." It would select the chief executive, be consulted on policy formation, and have a say in deciding who would fill up to 30 percent of the seats in the Legislative Council. The Hong Kong-based members of the Basic Law Drafting Committee, whose membership includes the head of the local NCNA office, would select this executive assembly.

The executive advisory assembly would select the chief executive through election or democratic consultations. Then Beijing would approve the assembly's selection for the chief executive, who could serve a maximum of two eight-year terms. The duties of the chief executive would include formulating policy in conjunction with the assembly and the Executive Council, commanding the local police force, and—under urgent conditions with the approval of Beijing—commanding troops stationed in Hong Kong.

The blueprint proposes that the ultimate number of Legislative Council members be about 60, with 40 percent of the seats filled by direct election, 30 percent from functional constituencies, and 30 percent by professionals "at the invitation of the assembly." The Legislative Council would be under the authority of the chief executive, who would have the power to dissolve it with the concurrence of a majority of the executive advisory assembly. The chief executive would be required to consult the Legislative Council on matters of importance, and to explain policy, but would not be accountable in any other way to the Council.

is systematically cultivating local newspaper editors and reporters by offering them home mortgage loans through Chinese banks in Hong Kong. The net result, according to one journalist, is that heavy self-censorship within the media is already the order of the day.

Tempering Factors

Beijing's actions in Hong Kong continue to be tempered by its interest in cultivating local and international business interests, including US companies. In our judgment, China wishes to ensure that its actions do not stampede nervous investors into moving the bulk of their assets elsewhere. Beijing also appreciates Hong Kong's role in its modernization program—as a source of investment and management skills, as a port for entrepot trade and technology transfer, and as a provider of training in basic business methods.

Beijing also continues to believe, in our view, that a peaceful transition in Hong Kong will increase international pressure on Taipei to open a dialogue with the mainland on the reunification issue. Chinese officials have indicated that the "one country, two systems" rubric, under which Beijing pledges to allow Hong Kong to retain its capitalist system and to enjoy a measure of political autonomy, was created with Taiwan in mind. Since the signing of the Sino-UK accord on Hong Kong's future, Beijing has increasingly pressed the United States for an endorsement of Deng Xiaoping's "one country, two systems" formula as a model for the reunification of Taiwan.

These concerns have not kept the Chinese from occasionally blundering and being heavyhanded, most notably in the instance of Xu Jiatun's blunt criticism of the British. On balance, however, they have sought to conciliate and calm public fears. For example, Beijing quickly sent Ji Pengfei in December 1985 to soothe local concerns about Chinese intentions after Xu's remarks. According to the US Consulate in Hong Kong, Lu Ping's monthlong visit in January—in

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which the Chinese took the step of consulting Hong Kong public opinion widely and visibly—also eased concerns created by Xu Jiatun's intervention. []

Growing Interdependence

While China continues to increase its political power in Hong Kong, the growing interdependence of the two economies may well be a greater source of Beijing's influence. Beijing, for example, is making selected, well-publicized investments in Hong Kong's banking sector to bolster business confidence. In June 1985, after the collapse of the Overseas Trust Bank shook public confidence in other small and medium-sized Hong Kong banks, China Merchants Steam Navigation Company—one of Beijing's three big commercial operations in Hong Kong—bought a 25-percent share of the Far East Bank when that bank faced liquidity problems. For the first time since the signing of the accord with the United Kingdom, a Chinese organization (China International Trust and Investment Corporation [CITIC]) agreed in principle to directly take over a financially troubled Hong Kong bank (Ka Wah) in January 1986. Although CITIC received most of the favorable publicity for the bailout, it was probably the Hong Kong Government's promise to guarantee Ka Wah's doubtful loans that clinched the deal. []

Beijing is increasing its economic ties to the territory in areas other than banking. The US Consulate in Hong Kong reports that China has purchased interest in one Hong Kong securities brokerage firm (Chung Mao) and is rumored to have bought another. Chinese enterprises and organizations have been especially active in Hong Kong's property market. In the past two years, Chinese enterprises have either purchased or committed themselves to invest in more than \$800 million worth of property. China has also made forays into leasing, residential property development, insurance, transportation, and hotel development. To encourage investment in Hong Kong, the Bank of China has also offered loans for new capital investment at better than market terms. The US Consulate in Hong Kong does not know how often such loans have been made, but suspects that it is relatively infrequently. []

In turn, Hong Kong continues to be Beijing's most important "outside" source of investment capital, with nearly \$8 billion in pledged investment over the past five years. Hong Kong accounts for approximately 60 percent of all investment in China and 70 percent of all joint venture projects there. The US Consulate in Hong Kong reports that many Hong Kong businessmen see investing in their ancestral towns on the mainland as a way of contributing to China's modernization campaign and building political equity with Beijing. They are also more willing to take risks than most foreign investors, according to the US Consulate in Hong Kong. []

China's rising trade with Hong Kong also underscores the growing interdependence between Hong Kong and the mainland. China's international trade—much of it carried out through Hong Kong—has jumped since Beijing first began to push its open-door economic policies. Last year China replaced the United States as Hong Kong's major trading partner. Hong Kong's total trade with China (including domestic exports, reexports, and imports) in 1985 was \$15.4 billion—a 27-percent increase from 1984's \$12.2 billion total. Because of Hong Kong's role in facilitating China's trade ties to the rest of the world, its share of Chinese trade has grown, and Hong Kong now accounts for over one-quarter of all China's trade. Reexports, which make up three-quarters of all of Hong Kong's exports to China, jumped from \$900 million in 1980 to about \$6 billion in 1985. Moreover, Hong Kong's role in entrepot trade provides a convenient fig leaf for indirect trade with countries such as South Korea, Indonesia, and even Taiwan, which do not have diplomatic relations with Beijing. []

Local Reaction

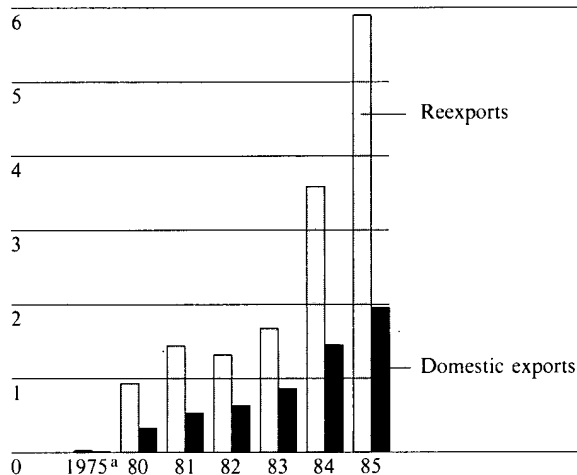
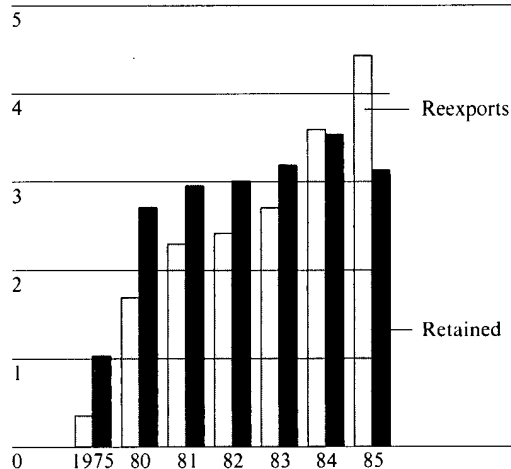
The public reaction to the clash between the Chinese and British over reforms has been muted mainly because, in our opinion, most residents are fatalistic about Beijing's future rule. Moreover, many Hong Kong businessmen approve of Chinese efforts to block

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Figure 5
Hong Kong's Trade With China

Billion US \$

Exports**Imports**

^a Reexports equaled \$27 million and domestic exports equaled \$6 million.

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the introduction of representative institutions. A leading Hong Kong businessman, Lord Lawrence Kadoorie, may have expressed the attitude of his fellows when he asserted that Hong Kong could best survive under a "benevolent oligarchy," ruled preferably by those who made the territory rich rather than by the shifting sands of public sentiment. [redacted]

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At the same time, most Hong Kong businessmen continue to hedge their bets by investing some of their profits abroad. The extent of capital flow from Hong Kong is difficult to determine. Because many Hong Kong businessmen base their decisions on a five-year turnover period, however, they have plenty of time to transfer their assets if necessary. A recent hint of business concern was reflected in the always volatile Hong Kong stock market when Xu Jiatun's public criticism of the British caused the index to shed nearly 50 points in one day. The market quickly bounced back to record highs—until late January, when rumors of Deng Xiaoping's deteriorating health caused the index to fall 30 points. Realizing the sensitivity of the territory's stock market to any reports indicating eventual changes in the political situation, the Chinese Foreign Ministry quickly denied the rumors as "pure invention." [redacted]

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A few gadflies in the Executive and Legislative Councils continue to criticize Beijing's occasional heavyhandedness. Executive and Legislative Councilor Allen Lee, for example, charged Chinese officials with "misleading" Hong Kong's people into thinking they will be entrusted with the power to run the territory. Elected Legco representative and BLDC member Martin Lee also criticized Xu Jiatun's remarks on British "deviations" from the accord as "unacceptable intervention." Lacking popular support, these critics, in our judgment, will be only a minor irritation to Beijing. [redacted]

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Although the press has in general treated China gingerly, a few newspapers continue to snipe at Beijing. The *Hong Kong Standard*—which in May

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1985 transferred ownership to a publicly listed company in Australia, probably for political reasons—and the consistently pro-British *South China Morning Post* continue to criticize Chinese actions in their editorials, although to little effect. []

Toward the Inevitable

In our judgment, real power in the colony is beginning to shift gradually from the United Kingdom to China. This process is likely to accelerate over the next several years. As the Sino-British Joint Liaison Group and BLDC become more active over the next year, the influence of China's local representatives is certain to increase as well. []

The British reform program, in the meantime, may languish and die. There is little popular support for it, and if Beijing can speed up the work of the BLDC the reforms may become moot. []

British officials who assisted in the negotiations admit that their gloomy forecasts have not come to pass and that Beijing has become more knowledgeable about the territory. They clearly retain a "so far, so good" attitude, however, stressing—correctly in our judgment—that the real test of China's ability to manage the transition will not come until the early 1990s, when businessmen must decide on their future investment strategies. Hong Kong's continued economic health depends, of course, on many factors outside the China-Hong Kong relationship, but certainly Beijing's ability to sustain business confidence is a key factor. []

Local and international business reaction to certain events and time periods will be crucial to a smooth transition. In 1987, for example, the Hong Kong Government will conduct a review of the current democratic reforms. As promised, the British will consult with Beijing before publishing their findings, and we expect little further progress on the reforms. A year later, on 1 July 1988, the Sino-British Joint Liaison Group will move its base of operations to Hong Kong, where it will be in a better position to directly influence territorial policies. In 1990, the

target date for completion of the Basic Law on Hong Kong, Beijing may encourage the Hong Kong Government to put aspects of the Basic Law into practice before reversion of sovereignty. By 1992, business confidence becomes crucial to the territory's economic performance; businesses in Hong Kong traditionally have been able to recover their investments in five years. Decisions will undoubtedly be strongly influenced by the success or failure of economic reforms in mainland China. []

Implications for the United States

Primarily economic concerns spur US interest in a successful transition for Hong Kong. The United States is a leading foreign investor in Hong Kong, with total US investment there in the \$4-5 billion range. Besides accounting for just over half of all direct foreign investment in Hong Kong's manufacturing sector, US firms are very active in Hong Kong's service sector—including about 30 US banks and numerous brokerage houses and insurance agencies. There are now more than 600 US-registered firms and 13,000 Americans resident in Hong Kong. []

Total trade between the United States and Hong Kong is substantial, reaching approximately \$12 billion last year. The United States purchased \$3.3 billion of domestic Hong Kong goods in the first half of 1985, with garments, electrical machinery, office machines, computers, toys, and plastics making up the majority of US imports. []

Conversely, Hong Kong—despite its size—ranks among the top 20 US export markets. The United States supplied 10 percent of Hong Kong's imports in the first half of 1985 (about \$1.5 billion) and is the territory's largest source of computer products and scientific instruments. Hong Kong is also one of the fastest growing markets for US agricultural products. On average, every person in Hong Kong spent about \$66 on US farm products in 1984. []

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Hong Kong, moreover, serves as an important center for facilitating US trade and investment in China. Roughly one-third of all China-bound US goods pass through Hong Kong, and many US businesses base their China operations there. The territory also serves as an important communications link and surveying post on China, as well as a port for the US Navy. Finally, as the world's third-largest financial center, Hong Kong contributes to the economic growth of Southeast Asia, in which the United States has a strong stake.

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Because the Sino-British agreement declared that Hong Kong is to remain economically autonomous after 1997, we anticipate that, unless Beijing begins to interfere more directly, US trade with Hong Kong will be relatively unaffected. As 1997 approaches, some trade and investment firms will probably opt to leave Hong Kong, but as long as the large volume businesses remain confident, business turnover should not seriously dampen the trade and financial environment. Hong Kong will almost certainly remain the most advantageous place for US firms to do business with China.

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US warships frequently visit Hong Kong and contribute to the territory's economy. A nascent antinuclear movement poses little immediate threat to US ship visits, since we doubt that British authorities would react to weak popular pressure on the nuclear issue. However, if a serious harbor accident involving a nuclear warship triggered large-scale popular objections, the British would be forced to reassess their policy. Once China assumes sovereignty, Hong Kong's ship-visit policy will be consistent with the mainland's.

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